

February 4, 2020

Company name: KYOEI STEEL LTD.
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Stock code: 5440
Listing: First Section, Tokyo Stock Exchange
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Announcement regarding the Launch of a business base in Canada.

KYOEI STEEL LTD. (the “Company”) resolved, at its board of directors’ meeting held today, to acquire assets located in Alberta, Canada which constitute a part of the business of Moly-Cop AltaSteel Ltd. (having its head office in British Columbia, Canada; “MC AltaSteel”), owned by AIP MC Holdings LLC (having its head office in Nebraska, U.S.; “AIP MC”) (the “Acquisition of Assets related to AltaSteel”). Furthermore, the Company has executed agreements necessary for the Acquisition of Assets related to AltaSteel with MC AltaSteel on the same date (the “Acquisition Agreements”).

Details

1. Purpose of the Acquisition Agreements

The electric arc furnace business, which is the core business of the Company group, sells steel materials produced from ferrous scraps generated in a region mainly within that region, which is local production for local consumption-based businesses. In Japan, under the “local mini-mill vision,” the Company has established a business base in a region having the demand and has engaged in the steel business rooted in that region. In foreign countries, under the same vision, the Company has established and acquired competitive mini-mills (electric arc furnace plant) located near regions having demand and has built linkages among plants, through which the Company has made efforts to enhance its corporate value.

Given that the demand for steel in Japan is expected to decline from a long-term perspective, the Company has regarded its overseas steel business as an important component of its growth strategies, and under the “World Trilateral Regime”, it so far has conducted business in the Socialist Republic of Viet Nam and in the U.S. As the Company’s Medium-term Business plan ended 2020 fiscal year launched Initiatives for “Increase the volume of shipments and become more profitable in overseas steel business,” the Company has strived to succeed at its goal of increasing profits in its overseas steel business by up to 30% of the Company’s group total earnings, by building a framework for annual shipments of 2.2 million tons abroad and improving profitability.

Regarding the business in North America, after acquiring Vinton Steel LLC (“Vinton”) located in Texas, in the U.S., as a beachhead of our business at the end of 2016, the Company explored opportunities to expand its business from the perspective of expanding business scale. The MC AltaSteel base (Assets related to AltaSteel), that the Company has recently obtained an opportunity to acquire, has steadily developed its business in Edmonton, Alberta, Canada as the sole mini-mill in Western Canada. After careful consideration, the Company decided that acquiring the assets would match its business vision and would contribute to the advancement of the “World Trilateral Regime.” In addition, as with Vinton, MC AltaSteel manufactures and sells base materials for steel balls for grinding ore in mines. The Company decided that by means of the Acquisition of Assets related to AltaSteel, it would have AltaSteel work together with Vinton and expand the Company group’s steel business further in North America.

2. Outline of the Acquisition of Assets related to AltaSteel

(1) Scheme of the Acquisition of Assets related to AltaSteel

MC AltaSteel established AltaSteel Inc. (“AltaSteel”) to which it assigned the Assets related to AltaSteel. The Company will acquire all of the shares in AltaSteel in order to make them our group’s new base in North America. The aggregate purchase price, including advisory fees, (Stock value base) is CAD 187.5 million (approximately JPY 15.492 million*). Completion of the Acquisition is subject to receipt of regulatory approval.

* Calculated at CAD 1 = JPY 82.60 (the exchange rate as of January 31, 2020. The same applies hereinafter when CAD is converted into JPY.)

(2) Outline of AltaSteel

(1)	Corporate name	AltaSteel Inc.
(2)	Location	British Columbia, Canada
(3)	Representative	Leanne Tenbrink, President
(4)	Description of Business	Production and Sale of steel material, and Disposal and Sales of scrap metal
(5)	Capital	Not provided
(6)	Established	January 30, 2020
(7)	Investor and Ownership ratio	Upon Completion of the Acquisition, KYOEI STEEL LTD. 100%
(8)	Relationship between the Company and AltaSteel Inc.	There is no applicable information regarding capital, personal, or business relationships. It is not classified as a related party applicable.
(9)	Sales amount	300,000 t* (2019 fiscal year)
(10)	Number of employees	458 (as of July 2019)

* Net Ton (NT: approx. 0.907 Metric Ton)

(3) Business performance of the business transferred to AltaSteel in the past (3) three years (CAD 1,000)

	FY ended June 30, 2017	FY ended June 30, 2018	FY ended June 30, 2019
Revenue	238,765 (JPY19.722million)	269,557 (JPY22.265million)	319,273 (JPY26.372million)
Operation profit	▲2,786 (JPY▲230million)	11,540 (JPY953million)	3,925 (JPY324million)
Pre-tax profit	18,211 (JPY1,504million)	33,038 (JPY2,729million)	5,786 (JPY478million)
Post-tax profit	12,238 (JPY1,011million)	34,245 (JPY2,829million)	9,584 (JPY792million)
EBITDA	11,363 (JPY939million)	27,583 (JPY2,278million)	17,271 (JPY1,427million)

* The numbers above are based on historic financial information provided for MC AltaSteel. Note that the results of the Due Diligence on this Acquisition of Assets related to AltaSteel are not reflected.

* The aggregate amount of total assets and net assets are, respectively, CAD 332,707 thousand

(JPY 27,482 million) and CAD 247,694 thousand (JPY 20,460 million) as of September 30, 2019. The amount of total assets and net assets as of FY2018 and FY2017 cannot be disclosed since balance sheets about the Assets related to AltaSteel have not been prepared.

(4) Outline of the counterparty to the Acquisition of Assets related to AltaSteel

(1)	Corporate name	Moly-Cop AltaSteel Ltd.
(2)	Location	British Columbia, Canada
(3)	Representative	Steven Gorst, President
(4)	Business description	Production and Sale of steel material
(5)	Capital	Not provided
(6)	Established	3 January 2017
(7)	Investors and Ownership ratio	AIP MC Holdings, LLC 100%
(8)	Relationship between the Company and MC AltaSteel	There is no applicable information regarding capital, personal, or business relationships.

* The amount of common stock, net assets, total assets and business performance cannot be disclosed because MC AltaSteel Ltd. have not released those figures.

3. Schedule (JST)

(1)	Resolved at the board of directors' meeting of the Company	February 4, 2020
(2)	Execution of Acquisition Agreements	February 4, 2020
(3)	Acquisition of the stock in AltaSteel under Acquisition Agreements (expected)	February 29, 2020

4. Future Prospects

We are now assessing the effect of the Acquisition of the Subsidiary on the consolidated earnings of the Company group in this fiscal year. We will disclose further information if the earnings forecast is required to be amended immediately.

(Reference) Consolidated earnings for this fiscal year (disclosed as of January 31, 2020) and consolidated business performance for the previous fiscal year

(Unit: JPY million)

	Consolidated revenue	Consolidated Operation income	Consolidated ordinary income	Net income belongs to the shareholders of the parent company
Consolidated earnings forecast for this fiscal year (FY ended March 31, 2020)	240,000	18,500	18,000	8,000
Consolidated earnings for the preceding fiscal year (FY ended March 31, 2019)	242,257	9,200	8,646	6,505

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